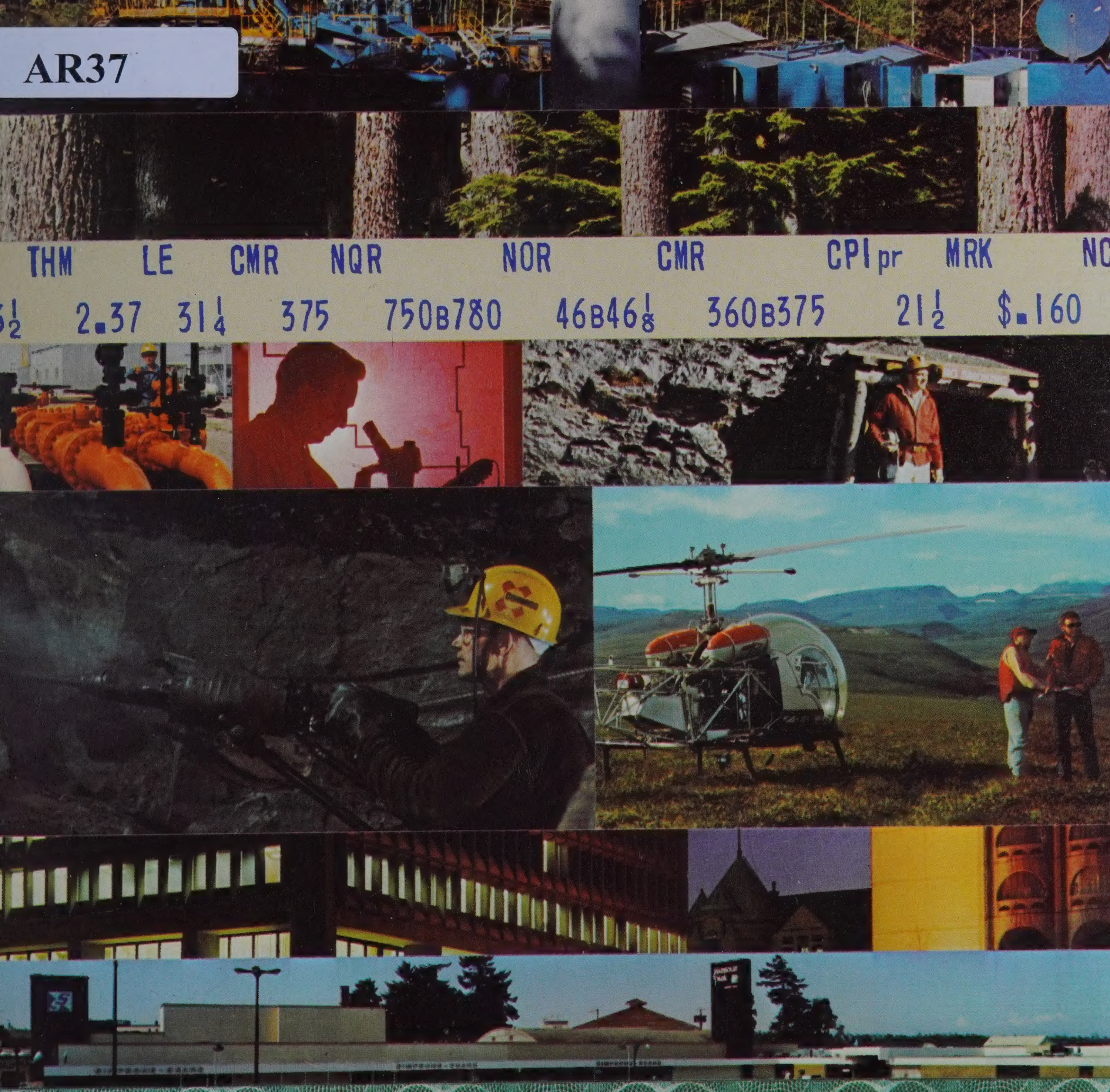

Canadian Pacific Investments Limited

Annual Report 1967

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Canadian Pacific Investments Limited

Notice of Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Canadian Pacific Investments Limited will be held on Wednesday, April 24th, 1968, at Le Château Champlain, Place du Canada, Montreal, at 11:00 A.M., Eastern Standard Time, for the following purposes:

(a) to receive and, if deemed fit, approve the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1967;
(b) to elect Directors;
(c) to appoint Auditors and to authorize the Board of Directors to fix their remuneration; and
(d) to transact such other business as may properly come before the meeting.

By order of the Board,
J. C. Ames, Secretary.

Montreal, March 8th, 1968.

Contents

Board of Directors and Officers

Directors

W. A. Arbuckle, *Chairman of the Canadian Board*,
The Standard Life Assurance Company, Montreal

A. M. Campbell, *President*,
Sun Life Assurance Company of Canada, Montreal

N. R. Crump, *Chairman and Chief Executive Officer*,
Canadian Pacific Railway Company, Montreal

R. Hendricks, *President*,
Cominco Ltd., Montreal

S. E. Nixon, *Executive Vice-President*,
Dominion Securities Corporation Limited, Montreal

The Hon. Dufferin Roblin, P.C.,
Member of The Manitoba Legislative Assembly,
Winnipeg

Ian D. Sinclair, *President*,
Canadian Pacific Railway Company, Montreal

F. V. Stone, *President*,
Canadian Pacific Investments Limited, Montreal

G. J. van den Berg, *Vice-President*, *Finance*,
Canadian Pacific Railway Company, Montreal

Officers

N. R. Crump, *Chairman of the Company*,
Montreal

F. V. Stone, *President*,
Montreal

Ian D. Sinclair, *Vice-President*,
Montreal

G. J. van den Berg, *Vice-President*, *Investments*,
Montreal

H. M. Pickard, *Vice-President*, *Operations*,
Montreal

F. A. Rutherford, *Comptroller*,
Montreal

James Holmes, *Treasurer*,
Montreal

J. C. Ames, *Secretary*,
Montreal

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto,
Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Highlights (millions of dollars)	1967	1966
Operating Income	$ 13.1	$ 10.6
Investment Income	20.0	21.4
Consolidated Net Income	39.9	42.0
Dividends Declared on Common Shares	20.1	20.1
Investments at year end:		
Portfolio	265.0	208.5
Unconsolidated Subsidiaries	176.3	148.6
Properties	194.7	160.0

The Directors are pleased to present their Annual Report on the consolidated operations of your Company for the year 1967 and to welcome as shareholders owners of the Preferred Shares, Series A.

It is an interesting coincidence that in the year of Canada's Centennial, Canadian Pacific Investments Limited made the largest single equity offering in Canada's financial history.

Proceeds from the new issue will be used to make major equity investments, principally in Canadian resource-oriented companies, and to provide additional capital for the further development of subsidiaries. At year end, the net proceeds of the issue not invested in stocks were temporarily invested in short term securities.

Consolidated net income of your Company in 1967 amounted to $39.9 million. This compares with consolidated net income of $42.0 million in the previous year. The decrease is more than accounted for by the lower dividends received from Cominco Ltd. and reduced equity in the retained income of that Company which is taken into consolidated net income.

Unconsolidated earnings, which include only that portion of the earnings of wholly-owned and partly-owned subsidiaries paid to your Company in dividends, amounted to $26.6 million in 1967, the same as in the previous year. Dividends declared in 1967 on the Common Shares of the Company, at $20.1 million, were also the same as in the previous year. For the year 1967 dividends declared represented a total of approximately 40.2¢ per Common Share outstanding.

Progress was made during the year in expanding and developing the diversified interests of your Company. The Investment Portfolio increased by $56.5 million, to a total of nearly $265 million, of which $202.3 million was in common stocks of non-controlled companies. Net investment in properties increased $34.7 million, to $194.7 million at year end. Of the increase, $15.3 million related to oil, gas and other mineral properties, $11.2 million to real estate and related operations, $5.9 million to timberlands and related facilities and $2.3 million to hotels. There was an increase of $53.5 million during the year in the borrowings of Canadian Pacific Securities Limited to finance development projects of companies wholly or partly owned by Canadian Pacific Investments Limited.

Major developments during the year included extension of oil and gas exploration into new areas and acquisition of an equity interest in Panarctic Oils Ltd. which will undertake a program of exploration in the Canadian Arctic islands. Provision for further expansion of logging operations was made through the purchase in 1967 of substantial timber holdings from Georgia-Pacific International Corporation. Completion of commercial and industrial developments and the start of construction on others in many urban areas across Canada highlighted real estate activities. The effect of additional business created by new hotels and other facilities opened during 1967 was offset by increased interest charges, start-up costs at Le Château Champlain and increased operating expenses.

Your Company looks forward with confidence to expansion in the many areas of its interests and to making its contribution to the future development of Canada.

For the Directors,

Fred V. Stone

President

N R Crump

Chairman

Montreal, March 8, 1968

Oil, Gas and Other Minerals

A significant development in the broadening of the scope of your Company was the acquisition of an interest in Panarctic Oils Ltd., which holds mineral rights in some 44 million acres of Canadian Arctic islands. An interest of 9% each was acquired by Canadian Pacific Oil and Gas Limited and Cominco Ltd. Acquisition of mineral rights during the year, mainly from the Crown in the form of permits, reservations or leases or under farm-in agreements, included 2.6 million acres in the Northwest Territories and 732,000 acres in the western provinces.

At the beginning of the year an agreement was made with Husky Oil Canada Ltd., under which that company leased from Canadian Pacific Oil and Gas Limited certain interests in 1.1 million acres located in the Lloydminster area of Alberta and Saskatchewan.

Financial

Consolidated net income of Canadian Pacific Oil and Gas Limited amounted to $10.6 million in 1967, an increase of $1.8 million over the previous year. Gross operating revenue, at $21.4 million, improved by $3.2 million. Of this improvement, $1.9 million was due to higher rental and royalty income from properties under lease or farm-out agreements, and $1.3 million to increased production of oil and gas and to other income.

Capital expenditures for the exploration and development of oil, gas and other minerals totalled $18.7 million during 1967.

Oil and Gas

In view of the increased demand for natural gas, the Company in 1967 developed further gas reserves in southern Alberta for delivery to Canadian Western Natural Gas Company Limited and Trans-Canada Pipe Lines Limited. Exploration of mineral rights in southern Alberta and southeastern Saskatchewan has resulted in the discovery of further significant oil reserves.

Production of both oil and gas, including production from royalty wells, increased in 1967: net daily production of crude oil, including natural gas liquids, averaged 13,400 barrels, an increase of 800 barrels per day, and natural gas averaged 106.2 million cubic feet, an increase of 8.6 million cubic feet per day.

During 1967, 41 wholly-owned wells were drilled, of which 6 were completed as oil wells and 22 as gas wells. In addition, Canadian Pacific Oil and Gas Limited participated with others in the successful drilling of a further 27 oil wells and 12 gas wells, in which an average interest of 49% is owned. At year end, net wells owned which were producing or capable of production totalled 215.4 oil wells and 234.7 gas wells. The total net proven and probable reserves of the Company at June 30, 1967, are estimated at 91.9 million barrels of oil, 1,473 billion cubic feet of natural gas and 16.2 million barrels of natural gas liquids.

Other Minerals

In 1967 further evaluation and development of the large coal-bearing reserves acquired from the Crown in the provinces of British Columbia and Alberta were undertaken. Quality tests are being continued with a view to the possible export of coking coal to Japan.

Production rights for potash in the extensive mineral rights owned by Canadian Pacific Oil and Gas Limited in Saskatchewan have been granted to a number of companies. During 1967, rapidly expanding production significantly weakened market prices of potash, with the result that royalty income from that source did not increase proportionately with production.

Timberlands and Related Facilities

During the year Pacific Logging purchased from Georgia-Pacific International Corporation most of the remaining assets of that company in British Columbia, including timberlands, various types of timber tenure, roads, equipment and other real estate. In addition, Pacific Logging entered into an agreement under which it will acquire 20,200 acres of second-growth timberlands on Vancouver Island, upon transfer of certain properties from the Esquimalt and Nanaimo Railway Company to the Government of British Columbia for use as park lands.

At year end, Pacific Logging owned 204,300 acres of timberlands and held Government licenses on a further 32,700 acres. The Company also holds cutting rights on Government lands for approximately 60 million board feet per year.

Financial

Net income of Pacific Logging Company Limited was $625,000 in 1967, an improvement of $128,000 over the previous year. Sales and operating revenue amounted to $11.5 million, compared with $10.3 million in 1966. Increased income from log sales and investments more than offset the effects of reduced timberland sales on Vancouver Island and the interruption of lumber operations at Slocan, B.C. by a strike in the last quarter of 1967.

Capital expenditures for the year amounted to $8.3 million, of which $6.5 million was for the purchase of timberlands, leases and licenses.

Operations

The market logging operations of Pacific Logging Company Limited are carried out on Vancouver Island. Despite curtailment of operations due to adverse weather conditions and to forest fires during the month of September, sales of logs during 1967 totalled 116.3 million board feet, of which 17.5 million board feet were exported to Japan and the United States.

The Company's lumber operations are located at Slocan in the southern interior of British Columbia. A modern mill is supplied with logs from adjoining Company-operated timberlands. On October 3, the mill was closed due to a strike, which affected all lumber mills in the southern interior of British Columbia. As a result, the total volume of lumber sold in 1967 was held to 31.9 million board feet for the nine months of operation, compared with 35.2 million board feet for the full year 1966.

In implementation of the policy of putting operation of its properties on a sustained yield basis, a further 875,000 seedlings were planted by the Company during the year on 2,560 acres of previously logged land on Vancouver Island. Following successful results obtained in previous years an additional 3,200 acres of second-growth lands were fertilized.

Real Estate and Related Operations

Progress continued to be made during 1967 in planning and developing commercial and industrial properties across Canada.

Financial

Consolidated net income of Marathon Realty Company Limited amounted to $1.2 million, compared with $631,000 in the previous year.

Significant improvements in earnings were attributable to operations of office buildings, shopping centres and other commercial properties. Increased demand for storage space at grain elevators and cold storage facilities, together with the continued upgrading of agricultural land holdings, also contributed to the better operating results.

Capital expenditures on commercial and industrial properties totalled $12.0 million. Many of the expenditures were made to provide for the development of properties over the long term and will not necessarily yield an immediate return.

Development

Construction was completed in Place du Canada, Montreal, of the 28-storey office building in which your Company has an interest. In Toronto, construction was started on the first stage of Keele Centre which will provide multi-tenant industrial space and be serviced by rail and truck. Implementation studies are going ahead on the redevelopment of 190 acres of land adjoining the downtown core of Toronto, to be known as Metro Centre.

The Husky Tower, a joint venture with Husky Oil Canada Ltd. and located in Palliser Square, Calgary, was topped-off in November. This tower, which incorporates a revolving restaurant, will open this summer. Construction has commenced on a 20-storey apartment building adjacent to the University of Alberta in Edmonton. In Vancouver, the re-zoning of 21 acres of land during the year will permit construction to go ahead in 1968 on town houses and apartment buildings. Plans in connection with "Project 200", the large development on the waterfront in Vancouver, moved closer to realization with the beginning of construction of the first building scheduled for 1968.

The new air-conditioned Harbour Park Shopping Centre in Nanaimo, B.C., was officially opened in April, 1967. Commercial buildings completed in other urban areas across the country included shopping centres at Salmon Arm, B.C., Olds, Alberta, and Yorkton, Saskatchewan, which are now in operation. Negotiations are underway, or have been completed, for building shopping centres in various cities and towns in the provinces of British Columbia, Alberta, Ontario and Quebec.

The Centennial Industrial Park at Sudbury, Ontario, was officially opened in April, 1967. The previously established industrial parks at Calgary, Edmonton and Montreal continued to grow. During 1967, eleven plants were built in industrial parks and at year end commitments had been made for construction of six more.

Hotels and Restaurants

The official opening of Le Château Champlain in Montreal and of the Chateau Lacombe in Edmonton, which is operated under management contract, highlighted the year's developments.

Renovations of the area in Le Château Champlain damaged by fire during the early hours of December 30, 1967, are under way. The lobby floor restaurants and bar, to which the damage was confined, are being remodelled and other attractive facilities added. This work is scheduled for completion around the end of May, 1968.

Revenues from hotel and restaurant operations were higher than in 1966, due largely to the first full year's operation of Le Château Champlain and additional business attracted to the other hotels in eastern Canada by Expo 67. However, increased interest charges and start-up expenses at Le Château Champlain, together with the effect on earnings of a large renovation program at the Empress Hotel, resulted in net income of $581,000, a decrease of $43,000 from 1966. Capital expenditures for the completion of Le Château Champlain and renovations at other hotels amounted to $4.7 million.

Canadian Pacific Hotels Limited is providing management or consultation services for hotels owned by Canadian Pacific Railway Company.

Financing

During 1967, Canadian Pacific Securities Limited continued to raise monies through the issue of interest-bearing notes to finance development projects of wholly-owned subsidiary companies of Canadian Pacific Investments Limited. In addition, monies were raised to provide term loans to two partly-owned companies, Cominco Ltd. and Bow River Pipe Lines Limited, in the amounts of \$20 million and \$4.3 million, respectively.

The financing operations of Canadian Pacific Securities Limited resulted in a profit of \$171,000, compared with \$42,000 in 1966. Notes outstanding at the end of 1967 amounted to \$76.4 million.

Investment Income

Net investment income in 1967 was \$20.0 million, compared with \$21.4 million in the previous year. Dividends and interest from the Investment Portfolio were \$1.6 million higher, but there was a reduction of \$2.6 million in dividends from Cominco Ltd.

Cominco Ltd.

Consolidated income of this 52% owned subsidiary amounted to \$38.5 million, or \$2.31 per share, compared with \$49.2 million, or \$2.95 per share, in 1966. The decrease in earnings resulted from lower prices for lead and zinc offset to some extent by an increase in revenue from chemical and fertilizer operations.

Major developments during the year included further progress in the construction of production facilities on its potash property at Vade, Saskatchewan, and preparation for the resumption of operations at its mercury mine at Pinchi Lake, B.C. Both properties are expected to begin production early in 1969.

The zinc and lead property acquired by Pine Point Mines Limited, a subsidiary of Cominco Ltd., from Pyramid Mining Company Limited in 1966 is currently being prepared for production in conjunction with the expansion of the Pine Point concentrator.

During the year, a 50% interest was acquired in Hill Chemicals, Inc. This company is constructing facilities in Texas for the production of anhydrous ammonia, which will be delivered by pipeline to the midwest United States for agricultural purposes. Production from the Magmont lead, copper and zinc mine in Missouri, a joint venture with Dresser Industries of Texas, is scheduled to start early in 1968.

Investment Portfolio

The book value of the Investment Portfolio was \$265.0 million at the end of 1967, compared with \$208.5 million at the close of the previous year. Holdings of common stocks, at \$202.3 million, showed an increase of \$25.0 million. Major purchases of common stocks during 1967, for which funds were provided from internal sources and the sale of Preferred Shares in November, were \$8.1 million of MacMillan Bloedel Limited, \$7.1 million of Rio Algom Mines Limited, \$5.8 million of The Great Lakes Paper Company Limited and \$3.4 million of Trans-Canada Pipe Lines Limited.

In addition to the above purchases, the holding of capital stock of Montreal Trust Company was exchanged for treasury shares of The Investors Group. By year end the total investment in common stock of The Investors Group amounted to \$8.0 million. The holding of \$3.7 million of the common stock of Texas Gulf Sulphur Company was sold in 1967.

Following are brief reviews of companies in which your Company has major holdings of common stock.

At year end the investment in MacMillan Bloedel Limited amounted to $56.5 million, and constituted 8.6% of the outstanding common shares. Earnings of this company, a highly diversified producer of forest products, decreased in 1967 under pressure of higher costs and reduced demand for pulp and newsprint.

Holdings of common stock of Trans-Canada Pipe Lines Limited were increased by year end to $48.2 million, representing an interest of 15.4%. A delay in obtaining approval for construction of a jointly-owned gas pipeline through the United States resulted in high operating expenses and lower earnings during 1967. However, over the long term, completion of this pipeline will open up significant new markets for Canadian natural gas.

A total investment of $29.2 million, including the shares held by Canadian Pacific Oil and Gas Limited, is held in the capital stock of Central-Del Rio Oils Limited. This gives your Company a 49.7% interest. Earnings during 1967 were close to the level of the previous year. Central-Del Rio has recently made significant oil discoveries in the Rainbow area of northern Alberta and in southern Saskatchewan.

By the end of 1967 an interest of 6.8%, amounting to $16.6 million, was held in the common stock of Rio Algom Mines Limited, a major producer of uranium and specialty steels. The growing world demand for nuclear reactor fuels and the successful operation of the new stainless steel mill in Quebec are expected to have a beneficial effect on future earnings.

During 1967 the investment in Union Carbide Canada Limited increased to $14.0 million, or 6.0% of the outstanding shares. Lower prices for products and increased costs resulted in reduced earnings in 1967. However, recent plant expansions should provide a firm base for a good earnings trend in the future.

The investment in The Great Lakes Paper Company Limited amounted to $9.5 million, an interest of 11.2%. Over the past few years that company has modernized much of its plant and equipment and has built a new kraft pulp mill. Earnings in 1967 declined due to increased operating costs and the poor pulp market.

Corporate

Preferred Shares

The 4¾% Cumulative Redeemable Convertible Voting Preferred Shares, Series A, were called for trading on the Montreal, Toronto and Vancouver Stock Exchanges on November 8, 1967. At December 31, 1967, there was a total of 25,540 registered shareholders of the Preferred Shares, of whom 99.68% were resident in Canada.

Dividends Declared

Dividends totalling $20.1 million were declared on the Common Shares of the Company during 1967. Calculated on the sub-divided number of shares outstanding, the payments were 20.134398¢ per share on July 17, and 20.065438¢ on February 1, 1968. All Common Shares outstanding at the end of 1967 were owned by Canadian Pacific Railway Company.

Directorate

In December, 1967, Mr. H. Greville Smith, C.B.E., who joined the Board in 1964, resigned as a Director. His resignation was accepted with much regret and the Directors desire to record their appreciation of the contribution to the affairs of the Company made by Mr. Smith during his association with the Board. The Honourable Dufferin Roblin, P.C., was elected a Director to succeed Mr. Smith.

Statement of Consolidated Income

	1967		1966	
Oil, Gas and Other Minerals:				
Gross operating revenue	$21,415,877		$18,222,962	
Operating expenses	$ 3,278,468		$ 2,667,703	
Depreciation and depletion	3,404,230		4,473,943	
Income taxes	4,124,499		2,268,339	
	$10,807,197	$10,608,680	$ 9,409,985	$ 8,812,977
Timberlands and Related Facilities:				
Sales and operating revenue	$11,455,576		$10,250,336	
Operating expenses	$ 8,074,566		$ 7,009,845	
Depletion, depreciation and amortization	2,317,104		1,843,592	
Income taxes	438,425		899,690	
	$10,830,095	625,481	$ 9,753,127	497,209
Real Estate and Related Operations:				
Gross rentals and other income	$ 6,867,991		$ 4,534,316	
Operating expenses	$ 4,272,897		$ 3,079,881	
Depreciation	407,730		216,055	
Income taxes	1,005,839		607,479	
	$ 5,686,466	1,181,525	$ 3,903,415	630,901
Hotels and Restaurants:				
Gross operating revenue	$41,088,177		$27,616,297	
Operating expenses	$37,499,047		$24,710,775	
Depreciation	2,394,172		1,631,145	
Income taxes	613,800		650,000	
	$40,507,019	581,158	$26,991,920	624,377
Financing:				
Gross operating revenue	$ 3,943,236		$ 648,524	
Operating expenses	$ 3,634,962		$ 560,837	
Income taxes	137,700		45,600	
	$ 3,772,662	170,574	$ 606,437	42,087
Investment Income:				
Dividends —				
Cominco Ltd.	$13,019,426		$15,571,970	
Other partly-owned subsidiary companies	115,736		197,417	
Dividends and interest from investment portfolio	7,934,464		6,312,288	
	$21,069,626		$22,081,675	
Expenses	$ 226,801		$ 157,183	
Income taxes	874,687		486,000	
	$ 1,101,488	19,968,138	$ 643,183	21,438,492
Consolidated income before the following		$33,135,556		$32,046,043
Equity in net income of Cominco Ltd. and other partly-owned subsidiary companies (in excess of dividends included above)		6,741,747		9,962,587
Consolidated Net Income		$39,877,303		$42,008,630

See Notes to Financial Statements.

Consolidated Balance Sheet, December 31

Assets	1967	1966
Current Assets:		
Cash and temporary investments, at cost (approximates market)	$ 65,858,480	$ 2,346,041
Deposits with Canadian Pacific Railway Company	4,067,403	2,140,075
Dividends and accrued interest receivable		
Cominco Ltd.	6,288,061	7,811,655
Other	1,819,432	915,173
Accounts receivable	9,352,601	8,429,020
Inventories, at the lower of cost or market	2,963,387	2,357,635
Prepaid expenses	525,824	129,814
	$ 90,875,188	$ 24,129,413
Investment Portfolio, at cost:		
Common stocks	$202,308,536	$177,357,698
Preferred stocks	20,276,687	17,385,822
Bonds, debentures and notes	42,399,471	13,730,958
	$264,984,694	$208,474,478
Investments in Subsidiary Companies not Consolidated:		
Cominco Ltd.	$173,075,802	$145,190,738
Other	3,176,074	3,413,178
	$176,251,876	$148,603,916
Properties, at cost:		
Oil, gas and other minerals	$ 89,151,647	$ 70,694,121
Timberlands and related facilities	40,454,105	32,224,739
Real estate and related operations	34,272,671	22,637,258
Hotels	58,856,499	54,385,126
	$222,734,922	$179,941,244
Less: Accumulated depreciation, depletion and amortization	28,069,791	19,914,225
	$194,665,131	$160,027,019
Other Assets	$ 10,673,238	$ 5,371,600
	$737,450,127	$546,606,426

Approved on behalf of the Board:
F. V. Stone, Director
Ian D. Sinclair, Director

See Notes to Financial Statements

Liabilities	1967	1966
Current Liabilities:		
Accounts payable and accrued charges		
Canadian Pacific Railway Company	**$ 3,561,520**	$ 2,338,385
Purchase agreement for timberland assets	**7,100,000**	—
Other	**9,869,045**	7,943,381
Notes and accrued interest payable		
Subsidiary companies not consolidated	**2,150,849**	1,000,000
Other	**64,813,424**	21,975,828
Income and other taxes payable	**3,094,141**	2,391,533
Dividend payable	**10,032,719**	10,032,719
	$100,621,698	$ 45,681,846
Deferred Liabilities, principally severance taxes	**$ 2,477,991**	$ 3,192,926
Deferred Credits:		
Deferred income taxes	**$ 19,068,426**	$ 14,172,787
Other	**816,709**	809,351
	$ 19,885,135	$ 14,982,138
Shareholders' Equity:		
Capital stock —		
Preferred shares		
Authorized — 12,500,000 shares of a par value of $20 each		
Issued — 5,000,000 4¾% Cumulative Redeemable Convertible Voting, Series A	**$100,000,000**	$ —
Common shares		
Authorized — 100,000,000 shares without nominal or par value		
Issued — 50,000,000 shares	**321,605,780**	310,820,160
Paid-in surplus	**81,800,314**	81,800,314
Retained income	**111,059,209**	90,129,042
	$614,465,303	$482,749,516
	$737,450,127	$546,606,426

Statement of Consolidated Retained Income

		1967	1966
Balance, January 1		$ 90,129,042	$ 59,927,189
Add:			
Net income for the year		$ 39,877,303	$ 42,008,630
Equity in gain on exchange of mining interests of Cominco Ltd.		—	7,668,354
Equity in recovery of income taxes for prior years of Cominco Ltd.		990,270	—
Net gain on sales of securities		4,032,364	686,842
		$ 44,899,937	$ 50,363,826
		$135,028,979	$110,291,015
Deduct:			
Expenses in connection with the issue of Preferred Shares, Series A			
Underwriters' commission	$3,500,000		
Other (less income tax $402,967)	371,970		
		$ 3,871,970	$ —
Miscellaneous (net)		32,362	96,535
Dividends on common shares		20,065,438	20,065,438
		$ 23,969,770	$ 20,161,973
Balance, December 31		$111,059,209	$ 90,129,042

See Notes to Financial Statements

**Auditors' Report to the Shareholders of
Canadian Pacific Investments Limited:**

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1967 and the statements of consolidated income, consolidated retained income and consolidated source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd. we have relied upon the report of the auditors who examined its financial statements.

In our opinion these financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants
Montreal, Quebec, March 4, 1968

Statement of Consolidated Source and Application of Funds

	1967	1966
Source of Funds:		
Net income	**$ 39,877,303**	$42,008,630
Deduct: Equity in income of partly-owned subsidiary companies in excess of dividends received	**6,741,747**	9,962,587
	$ 33,135,556	$32,046,043
Depreciation, depletion and amortization	**8,763,236**	8,179,735
Deferred income taxes	**4,895,639**	2,953,168
Funds from operations	**$ 46,794,431**	$43,178,946
Capital stock issued		
Preferred	**100,000,000**	—
Common	**10,785,620**	7,289,000
Increase in short term borrowings	**43,988,445**	22,975,828
Net gain on sales of securities	**4,032,364**	686,842
Proceeds from disposal of properties	**1,809,132**	716,213
	$207,409,992	$74,846,829
Application of Funds:		
Additions to investment portfolio	**$ 56,510,216**	$ 3,151,595
Investment in subsidiary companies, not consolidated	**19,949,225**	3,310,900
Additions to properties	**44,952,018**	42,768,665
Dividends declared	**20,065,438**	20,065,438
Expenses in connection with issue of Preferred Shares, Series A	**3,871,970**	—
Sundries (net)	**6,266,757**	1,098,987
Additions to cash and temporary investments	**63,512,439**	(393,724)
Increase in working capital exclusive of cash and temporary investments and short term borrowings	**(7,718,071)**	4,844,968
	$207,409,992	$74,846,829

Investment Portfolio as at December 31

		1967 Number of Shares	1967 Cost	1966 Number of Shares	1966 Cost	1967 Approximate Market Value
Common Stocks:						
Central-Del Rio Oils Limited		3,336,064	$ 29,184,463	3,293,764	$ 28,655,963	$ 73,810,416
The Great Lakes Paper Company Limited		404,575	9,514,450	138,810	3,667,979	7,080,062
The Huron & Erie Mortgage Corporation		528,260	6,953,456	528,260	6,953,456	5,216,567
Husky Oil Canada Ltd.		472,200	5,228,694	448,600	4,881,996	11,391,825
The Investors Group		635,000	7,987,259	—	—	5,397,500
MacMillan Bloedel Limited		1,795,282	56,512,546	1,510,372	48,384,295	42,189,127
Montreal Trust Company		—	—	329,500	6,640,634	—
Provincial Bank of Canada		581,150	6,235,360	116,230	6,235,360	5,012,419
Rio Algom Mines Limited		842,727	16,629,882	599,690	9,544,274	29,284,763
Texas Gulf Sulphur Company		—	—	60,100	3,680,179	—
Trans-Canada Pipe Lines Limited		1,267,652	48,226,763	1,157,752	44,850,085	35,177,343
Union Carbide Canada Limited		601,350	14,044,799	527,250	12,624,329	10,373,288
Other			1,790,864		1,239,148	2,232,603
			$202,308,536		$177,357,698	$227,165,913
Preferred Stocks:						
Canborough Limited	Cumulative Redeemable Preferred Series "A" 5¼% — Par value $100	12,500	$ 1,250,000	12,500	$ 1,250,000	$ 1,250,000
Consolidated-Bathurst Limited	Cumulative Redeemable Preferred Series 1966 6% — Par value $25	44,825	1,165,289	—	—	896,500
The Consumers' Gas Company	Cumulative Redeemable Preference Series "C" 5% — Par value $100	12,500	1,250,000	12,500	1,250,000	1,137,500
Debhold (Canada) Limited	Cumulative Redeemable Preferred Series "A" 6% — Par value $100	15,000	1,500,000	15,000	1,500,000	1,432,500
Great Britain & Canada Investment Corporation	Cumulative Redeemable Preferred 5% — Par value $50	25,485	1,260,757	25,485	1,260,757	942,945
Rio Algom Mines Limited	Cumulative Redeemable First Preference $5.80 Series "A" — Par value $100	11,000	898,457	11,000	1,088,500	1,045,000
Thompson Newspapers Limited	Cumulative Redeemable Preference Series "A" 6¾% — Par value $50	20,000	1,000,000	—	—	965,000
Trans-Canada Pipe Lines Limited	Cumulative Redeemable Preferred $2.80 — Par value $50	30,000	1,485,000	30,000	1,485,000	1,350,000
Union Gas Company of Canada, Limited	Cumulative Redeemable Preference Series "C" 5% — Par value $50	50,000	2,500,000	50,000	2,500,000	2,250,000
Other			7,967,184		7,051,565	7,121,030
			$ 20,276,687		$ 17,385,822	$ 18,390,475
			$222,585,223		$194,743,520	$245,556,388

		1967 Principal Amount	1967 Cost	1966 Principal Amount	1966 Cost	1967 Approximate Market Value
Bonds, Debentures and Notes:						
Bell Telephone Company of Canada	First Mortgage Series "F" — 3¼% due February 15, 1973	$6,000,000	$ 5,196,250	$6,000,000	$ 5,196,250	$ 5,040,000
British Columbia Electric Company Limited	First Mortgage Series "D" — 3¾% due February 1, 1969	—	—	1,000,000	948,000	—
Chrysler Credit Canada Limited	7.45% Promissory Note — due October 30, 1968	1,000,000	1,000,000	—	—	1,000,000
The T. Eaton Acceptance Company Limited	7.116% Promissory Note — due April 30, 1968	1,000,000	1,000,000	—	—	1,000,000
The T. Eaton Realty Company Limited	First Mortgage 3½% — due March 15, 1968	—	—	1,800,000	1,717,425	—
Ford Motor Credit Company of Canada Limited	6⅝% Discount Note — due February 15, 1968	2,000,000	1,963,699	—	—	1,981,200
	6⅝% Discount Note — due May 15, 1968	1,000,000	966,058	—	—	975,500
General Motors Acceptance Corporation of Canada Limited	6.63% Discount Note — due April 30, 1968	1,000,000	975,644	—	—	978,000
	6.65% Discount Note — due June 3, 1968	3,000,000	2,892,810	—	—	2,916,000
Government of Canada	3¼% Bonds — due October 1, 1979	2,610,000	2,601,625	—	—	1,931,400
	4½% Bonds — due September 1, 1983	5,080,000	4,823,250	—	—	4,013,200
Industrial Acceptance Corporation Limited	6.84% Discount Note — due March 1, 1968	1,000,000	977,504	—	—	988,700
	6¾% Discount Note — due December 5, 1968	1,000,000	931,490	—	—	936,100
	6¾% Discount Note — due December 5, 1968	1,000,000	932,544	—	—	936,100
International Harvester Credit Corporation	6⅝% Discount Note — due February 12, 1968	1,000,000	983,664	—	—	992,400
	6.94% Promissory Note — due April 4, 1968	1,000,000	1,000,000	—	—	1,000,000
C. Itoh & Company Limited	Convertible Unsecured Debentures — 6¼% due March 31, 1984	(US)1,000,000	1,081,250	(US)1,000,000	1,081,250	1,016,300
Province of New Brunswick	Treasury Note — due March 29, 1968	1,000,000	979,023	—	—	983,900
	6.77% Discount Note — due May 29, 1968	5,000,000	4,833,156	—	—	4,862,000
Province of Newfoundland	7.25% Promissory Note — due July 2, 1968	2,000,000	2,000,000	—	—	2,000,000
Province of Nova Scotia	6.56% Note — due January 10, 1967	—	—	1,000,000	1,000,000	—
Province of Prince Edward Island	6.61% Discount Note — due May 20, 1968	1,000,000	971,406	—	—	974,700
	6.68% Discount Note — due June 7, 1968	2,000,000	1,937,018	—	—	1,942,200
Rupert's Land Trading Company (Gtd. by Hudson's Bay Co.)	6¾% Promissory Note — due May 8, 1968	1,000,000	1,000,000	—	—	1,000,000
Other			3,353,080		3,788,033	3,269,625
			$ 42,399,471		$ 13,730,958	$ 40,737,325
			$264,984,694		$208,474,478	$286,293,713

Notes to Financial Statements

Note 1 — Basis of Consolidation
The consolidated financial statements include the accounts of all wholly-owned subsidiary companies, namely Canadian Pacific Oil and Gas Limited, Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited and Canadian Pacific Securities Limited. In the case of wholly-owned subsidiaries incorporated by the Canadian Pacific Railway Company (CPR) prior to their acquisition by Canadian Pacific Investments Limited (CPI), the 'pooling of interests' concept has been applied and consequently consolidated retained income includes the retained income of such companies at the dates of their acquisition.

Note 2 — Investments in Partly-Owned Subsidiary Companies
The financial statements of Cominco Ltd. and other partly-owned subsidiaries are not consolidated because of the existence of substantial minority interests. However, the equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

CPI acquired 8,412,500 shares of Cominco Ltd. (51.35%) from CPR in December, 1963 at CPR's average cost of $2.03 per share. Subsequently CPI adjusted the carrying value of these shares to the book value of its equity in the underlying assets as shown by the consolidated financial statements of Cominco Ltd. at December 31, 1963 ($11.75 per share). The excess of the value thus established over the acquisition cost, amounting to $81,800,314, was designated as paid-in surplus. Since 1962 CPI has acquired 267,117 shares of Cominco Ltd. from other sources at market prices and recorded these acquisitions at cost. At December 31, 1967 52.01% was owned.

An analysis of investments in partly-owned subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other partly-owned subsidiaries
	(in thousands)	
Shares —		
Cost of acquisition	$ 26,081	$3,084
Adjustment of carrying value as described above	81,800	—
Equity in net income since acquisition, less dividends received	34,601	92
Equity in other increases in retained income	10,594	—
	$153,076	$3,176
6¼% Notes due May 1, 1972	20,000	—
	$173,076	$3,176

Note 3 — Capital Stock
By Supplementary Letters Patent dated October 11, 1967, the 32,160,578 shares without nominal or par value which had been issued to CPR were subdivided into 50,000,000 shares without nominal or par value and the 7,839,422 unissued shares were subdivided into 50,000,000 shares without nominal or par value and all such shares were designated as common shares. The supplementary letters patent also authorized the creation of 12,500,000 preferred shares of the par value of $20 each, issuable in series.

Subsequent to that date the company issued, for an aggregate cash consideration of $100,000,000, 5,000,000 4¾% Cumulative Redeemable Convertible Voting Preferred Shares, Series A, each share carrying the right to receive a warrant to purchase one common share of the company on or before November 1, 1971 at a price of $12 and thereafter and on or before November 1, 1974 at a price of $14.

Each preferred share, series A, is convertible, at the option of the holder, up to November 1, 1977, into common shares on the basis of two common shares for one preferred share. At December 31, 1967 no options had been exercised. The company has, at its option, the right to redeem after November 1, 1972 the preferred shares, series A, then outstanding at a price of $20 per share. Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. At December 31, 1967 the amount of retained income available for such distributions was $40,764,891.

During the year, and prior to the subdivision of the authorized and issued shares referred to above, 1,078,562 common shares were issued for an aggregate cash consideration of $10,785,620.

Note 4 — Income Taxes
Pacific Logging Company Limited has received notices of re-assessment in respect of the years 1963 and 1964. The additional tax assessed, with interest, amounts to approximately $1,700,000. These assessments are being contested, and the additional tax has not been paid or provided for in the accounts. An additional amount of approximately $2,500,000 may be claimed in respect of 1965, 1966 and 1967 if re-assessments are issued on the same basis for these years.

Note 5 — Commitments and Contingent Liabilities
Commitments for capital expenditures at December 31, 1967 amount to approximately $6,600,000.

The company is contingently liable, to the extent of $2,350,000, in respect of a guarantee of a bank loan to Summerlea Industrial Park Limited.

Note 6 — Remuneration of Directors
The aggregate remuneration paid by the company and its subsidiaries whose financial statements are consolidated with those of the parent company to the directors of the company during the year 1967 amounted to $76,480. The aggregate remuneration paid by subsidiaries of the company whose financial statements are not consolidated with those of the parent company to the directors of the company during 1967 amounted to $121,833.

Note 7 — Depletion
Depletion in the amount of $3,030,303 has been charged to expenses in 1967 (1966 - $3,789,958). Accumulated depletion at December 31, 1967 amounted to $12,380,053 (1966 - $9,408,373).

General Areas of Interest

Husky Tower, a joint venture of Marathon Realty Co. Ltd. and Husky Oil Canada Ltd., Palliser Square, Calgary, Alta.

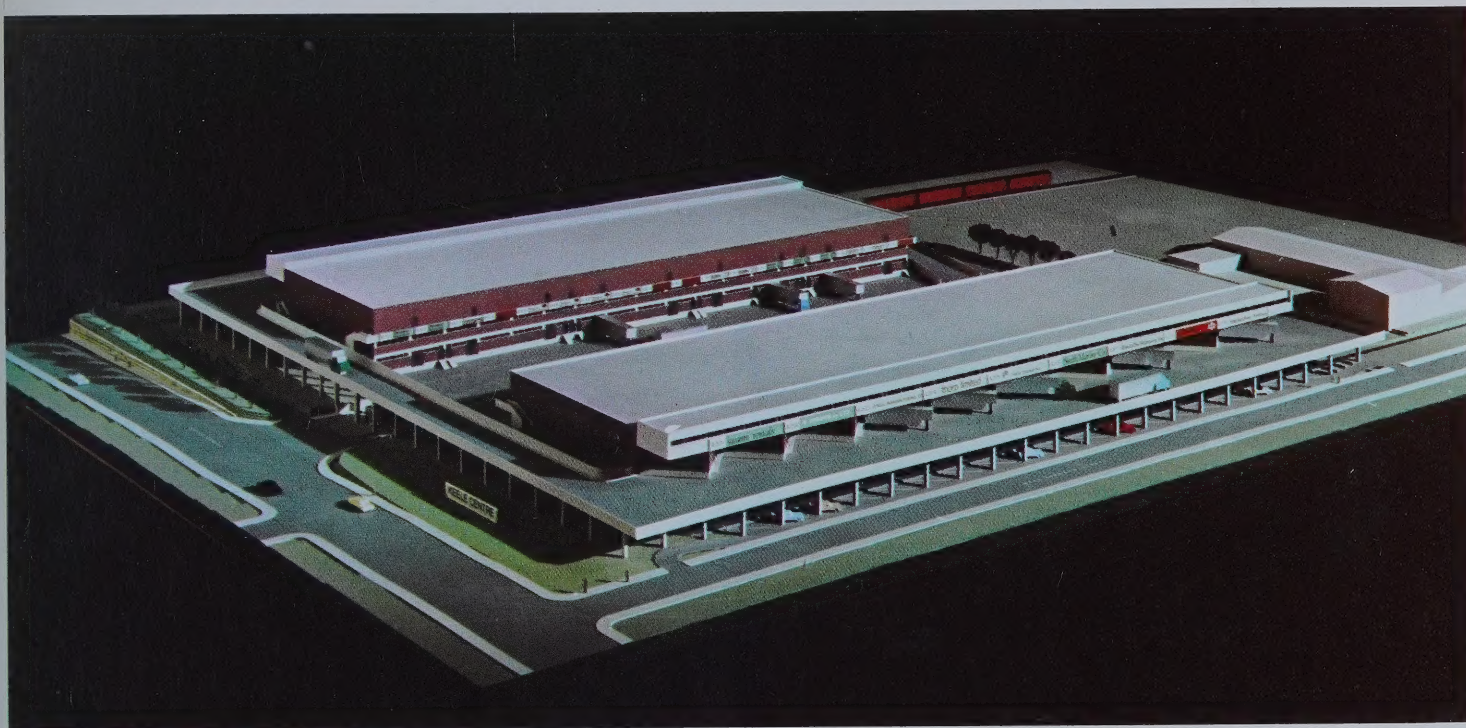
Timber stand, Pacific Logging Ltd., Vancouver Island, B.C.

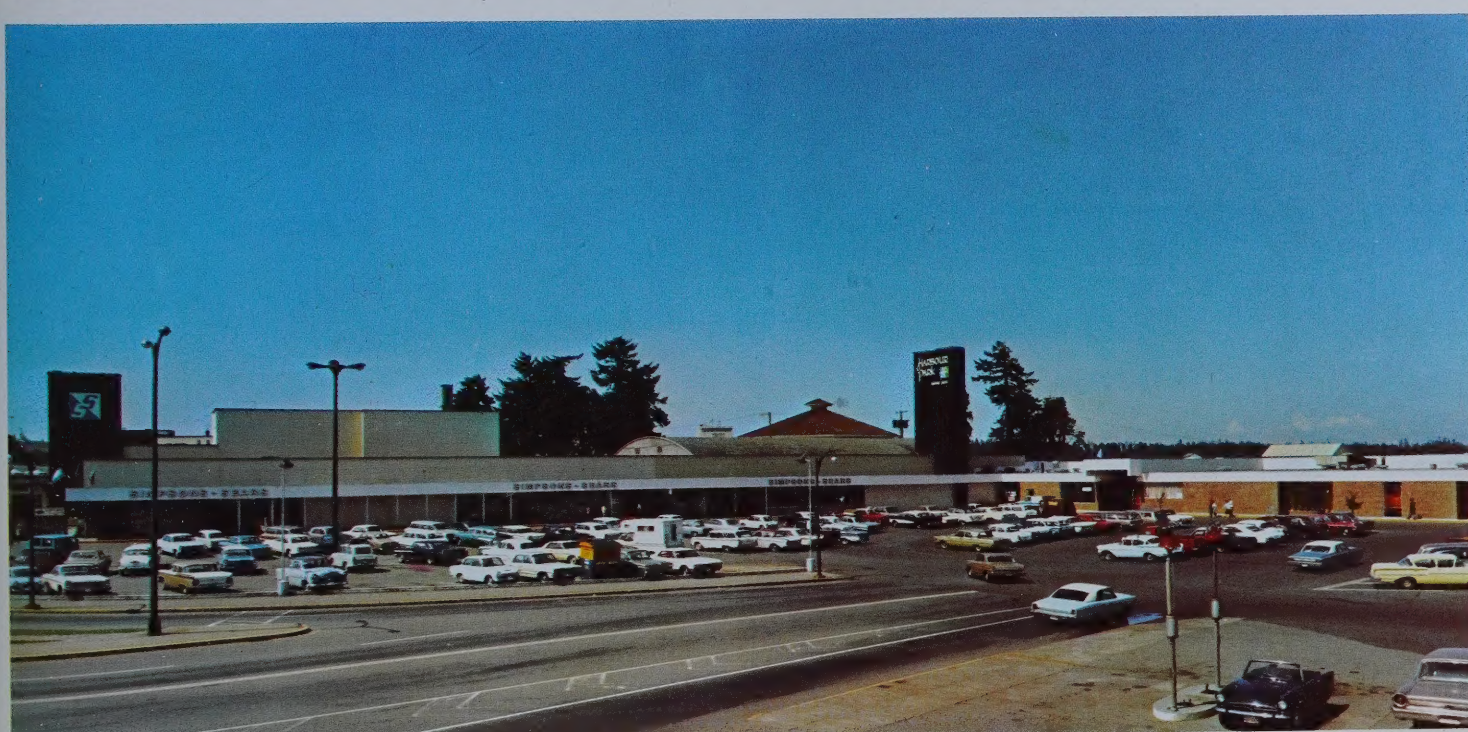
Casting continuous steel ingots at Cominco subsidiary, Western Canada Steel Ltd., Vancouver, B.C.

Office Building and Le Château Champlain, Place du Canada, Montreal, Que.

Keele Centre, Toronto. A new concept in the design of multi-tenant industrial space comprising two warehouse buildings with truck and rail facilities. The first building is scheduled to open June, 1968.

Harbour Park Shopping Centre, Nanaimo, B.C. Opened early in 1967, this Centre comprises 30 stores and features an enclosed air-conditioned shopping mall.





Oil drilling rig of Canadian Pacific Oil & Gas Ltd., Jumping Pound, Alta.

Principal Subsidiary Companies

Canadian Pacific Oil and Gas Limited
Head Office: Calgary, Alberta
Natural Resources Building, 205 - 9th Avenue S.E.

Pacific Logging Company Limited
Head Office: Victoria, British Columbia
468 Belleville Street

Marathon Realty Company Limited
Head Office: Calgary, Alberta
Natural Resources Building, 205 - 9th Avenue S.E.

Vancouver, British Columbia
Room 214, C.P.R. Station

Winnipeg, Manitoba
Room 312, 150 Henry Avenue

Toronto, Ontario
69 Yonge Street

Montreal 3, Quebec
Suite 1440, Place du Canada

Canadian Pacific Hotels Limited
Head Office: Royal York Hotel, Toronto, Ontario
Empress Hotel, Victoria, British Columbia
*Palliser Hotel, Calgary, Alberta
*Banff Springs Hotel, Banff, Alberta
*Chateau Lake Louise, Lake Louise, Alberta
Chateau Lacombe, Edmonton, Alberta
Hotel Saskatchewan, Regina, Saskatchewan
Skylon Restaurants, Niagara Falls, Ontario
Le Château Champlain, Montreal, Quebec
Le Baron Motor Hotel, Sherbrooke, Quebec
Le Château Frontenac, Quebec City, Quebec
*Algonquin Hotel, St. Andrews, New Brunswick
*Hotels owned by Canadian Pacific Railway Company

Canadian Pacific Securities Limited
Head Office: Montreal 3, Quebec
Room 247, Windsor Station

Cominco Ltd.
Head Office: Montreal 2, Quebec
630 Dorchester Blvd. West

PRINTED IN CANADA

Canadian Pacific Investments Limited